

# Inactive Accounts

## Issue

Should the accounts of inactive, non-vested members of the retirement system be closed after a certain period of inactivity?

## Background

"Inactive accounts" refers to the accounts of members who have terminated employment from their Department of Retirement Systems (DRS)-covered employer and the member has elected to leave their contributions in the retirement system.

- ❖ The Committee's consideration of inactive accounts during the 2019 Interim is limited to non-vested members of the retirement system.<sup>1</sup>
- ❖ As of June 30, 2018, there are 140,254 inactive, non-vested accounts among DRS-administered retirement plans.

Required Minimum Distributions (RMDs) are the minimum amount an individual must withdraw from their retirement account each year, as required by the Internal Revenue Service (IRS).<sup>2</sup>

- ❖ Individuals cannot keep retirement funds in their accounts indefinitely. Generally, individuals must start taking withdrawals from their retirement accounts at age 70 ½.
- ❖ If RMDs are not taken, or the distributions are not large enough<sup>3</sup>, the amount not taken is subject to a 50 percent excise tax.

## Highlights

DRS has stated that the management of inactive accounts of non-vested members is administratively burdensome, primarily as members age past the date of required distributions.

- ❖ [DRS has requested](#) the Committee review existing policy related to inactive accounts and consider endorsing legislation that would close inactive accounts after a certain period of inactivity.
- ❖ The burden of maintaining inactive non-vested accounts is relatively small at the outset but increases as time passes; particularly when it comes to RMDs.

---

<sup>1</sup>DRS's request pertains to non-vested inactive accounts only. Therefore, vested inactive accounts are outside the scope of this paper.

<sup>2</sup>RMDs apply to the following plans: traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k) plans, 403(b) plans, 457(b) plans, profit sharing plans, and other defined contribution plans.

<sup>3</sup>The required minimum distribution for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the IRS's "Uniform Lifetime Table." More information can be found [here](#).

- ❖ The more time that passes between terminating employment and RMDs, the greater the required effort to locate a member or beneficiary to distribute funds.

The Revised Uniform Unclaimed Property Act (RUUPA) has influenced how states are handling certain inactive retirement accounts.

- ❖ RUUPA requires holders of unclaimed property to turn it over to the state unclaimed property administrator after a suitable dormancy period, including abandoned tax-deferred retirement accounts.
- ❖ Colorado, Maryland, Nebraska, and Wisconsin have policies and procedures that consider inactive defined-benefit accounts abandoned after a certain period of inactivity and transfer those accounts to their respective unclaimed property divisions.

### Committee Activity

The Committee held a work session at the November 2019 meeting and directed staff to work with DRS to develop policy options for consideration in the 2020 Interim. The Committee also received a status update on this topic during the December meeting.

*O:\SCPP\2019\Recommendations\Inactive.Accounts-Final.Exec.Summ.docx*